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Published version:

DOI:10.1017/eso.2014.26

HAPPY 150TH ANNIVERSARY ITALY? INSTITUTIONS AND ECONOMIC PERFORMANCE SINCE 1861

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The 150th anniversary of Italian Unification, celebrated in 2011, took place in the middle of a dramatic economic and political crisis; during the year, the economic downturn that followed the international banking crash of 2008-09 almost led to the collapse of Italian public finances, and in November 2011 the Prime Minister Silvio Berlusconi resigned after months of political instability. The 2011 events, however, were the culmination of a trend started at least two decades earlier.[2] Indeed, during the 1990s and 2000s the rate of growth of Italian GDP has been less than 1% (0.97) per year, half of the average (2.25%) of the four largest countries of the European Union (France, Germany, Spain and UK). If we consider the first eleven years of the new century, the situation appears even worse: Italy's rate of growth has been 0.4% per year, while Germany, France, UK, and Spain have grown at least almost three time faster: respectively 1.15%, 1.17%, 1.63%, and 1.98%.[3]

Furthermore, the Italian economic decline was not confined to growth, and the same gloomy picture appears when looking at other areas of the economy, for example international trade. In 2007, Italy had a share of 4 per cent of the total of the world trade, almost 40 per cent less than 15 years earlier. Moreover, its export specialization is more and more oriented towards low-technology traditional goods in sectors with the slowest rates of growth in world markets.[4] Italy has also shown a weak performance in science and technology, with scarce attention to technical education, limited capacity to invest in R&D activities and, as a consequence, very weak patenting activity mainly concentrated in those fields far away from the technological frontier.[5]

The evident state of economic decline, paralleled by deep political crisis,[6] which characterizes the 1990s and the 2000s, raises a fundamental question for economic and business historians: does this phase represent a temporary slowing down in the journey *Dalla periferia al centro* (from the periphery to the core), analyzed in Zamagni's influential book,[7] or is Italy going back to what Cipolla defined its "career as an underdeveloped area within Europe",[8] started at the beginning of the XVIII century after having lost its leading role in the world economy?[9]

A quantitative analysis of long-term trends sheds some light on this question. Recent data comparing various Western countries to the economic frontier (the US) show that the relative position of Italy has hardly changed over time. Italy never really converged not only to the frontier, but also to the average of the core European countries.[10]

However, it is noteworthy that historians' attitudes, implicitly or explicitly, are strongly influenced by the circumstances in which they operate. Thus, it is perhaps not surprising that authors writing in the 1990s, at the end of the mini boom of the 1980s, talked about convergence towards the core, and looked for the long-term roots of success.[11] Instead, academic works published in the mid-late 2000s take a much more negative stance on Italy's performance, and look for the origins of its weaknesses.[12] These are usually identified in the limitations imposed to market mechanisms after World War Two, and in the unwillingness and/or inability of political forces to correct these problems for reasons of electoral convenience.[13]

Although not entirely incompatible with this view, this paper provides a different interpretation, suggesting that since Unification Italy had followed a model of economic development characterized by poor formal institutions. Following North, we use this word to indicate the explicit and codified "rules of the game" and their enforcement.[14] The institutions that we focus upon are the ones usually analyzed by business historians, and concern areas such as bankruptcy law, balance sheets regulation, tax compliance, and firms' governance. Our argument is that inefficient or poorly-enforced institutions created incentives for firms to remain small and for entrepreneurs to operate more as stockholders rather than stakeholders. This, in turn, reduced the ability and propensity to innovate, and in Italy what Zysman calls "market capitalism" – defined as an "historically-determined, institutionally-mediated pattern of growth" –[15] remained sub-optimal because characterized by scarce investment in education and science, while competition was based on low salaries, imitative technologies, and marginal behavior such as tax evasion. The implication is that what Zysman defined as the "market logic"[16] (i.e. the interaction amongst different economic and institutional actors), in Italy created a pattern of incentives and constraints for firms to remain mainly in traditional industries rather than expanding into more innovative sectors and to allow Italy to fully convergence towards the technological frontier. In turn, this problem had limited the economic growth of the country, and Italy never really left the "semi-periphery" of the world economy. This interpretation is not in contrast with the fact that Italy experienced phases of rapid growth, such as the post-1945 "economic miracle" or the mini-boom of the 1980s; in fact poor regulation gave short-term competitive advantages during periods of exceptionally-rapid growth of the international economy driven by exogenous factors, but ineffective institutions quickly turned into a disadvantage as soon as external conditions changed. It is fair to say that although part of the institutional setting operated as a constraint for Italian firms and the Italian economy, the existence also of sound institutional and cultural factors, what Sylos-Labini defined "antibodies", preserved Italy from slipping into the world periphery.[17] The optimistic twist of this caveat, however, should not be over-emphasized. In fact, what this paper looks at, is the system of formal rules (and their enforcement) that regulates the functioning of ordinary economic activity. In other words, we look at the aspects of the Italian economy that "do work", and we do not analyze issues such as the historical failure to enforce basic rules in organized crime-controlled regions of the *Mezzogiorno* and, in wider terms, of the inability to close the economic gap between the North and the South of the country.[18] Similarly, we do not study the problems of the extension of the shadow economy and the diffusion of corruption, which are widely acknowledged to be in Italy amongst the largest in advanced countries.[19] These are of course enormous structural issues, which are surely linked with the object of our paper. Indeed, the inability to set up institutions able to coordinate economic activity efficiently can be seen as a part of a wider picture of regulatory failure which may also incentivize borderline if not illegal behaviors.

This paper is based on a critical review of a vast body of secondary literature, partly developed by the authors themselves. For the sake of space, we only recall the basic arguments of various books and papers without reporting here most of the quantitative and qualitative evidence. Readers interested in more detailed explanations can refer to the original publications.

This paper is structured as follows. In the next section, we set-up the conceptual framework of the paper, by considering the theoretical link between economic performance, innovation, and institutional settings. The third Section offers specific examples of institutional failures in Italy. The fourth Section analyses various institutions-based views of Italian economic performance, including our own, while the fifth Section introduces a tentative analysis of why inefficient rules did not change over time, using the perspective of Italian football. The final Section provides some concluding remarks.

Institutions, innovation, and economic performance

A very influential and still-developing literature, whose detailed analysis goes well beyond the scope of this paper, argues that institutions are the strongest single determinant of long-term economic growth.[20] However, various authors subscribing to this approach have very different ideas of what institutions actually are, and how exactly they affect economic performance. In this paper we borrow the view that the main role of institutions in the process of growth is to foster innovation, as the long-term macroeconomic success of a country mainly depends on its ability to remain congruent with the technological frontier.[21] In this sense, institutions would foster the Schumpeterian process of creative destruction by shaping an environment able to support the emergence of new ideas coming from innovative entrepreneurs. Thus, institutions have a fundamental role in this dynamic because congruence is not automatically given but is limited by a country's resource endowment and factors supply. Institutions, however, might help to construct a proper set of social capabilities, embodied in firms and other organizations, necessary to compensate for the lack of natural congruence, to assimilate successfully foreign technologies, and to create new products or processes. Our view is that social capabilities develop especially thanks to the role played by the most dynamic and innovative manufacturing sectors whose success, in turn, depends on three factors. These are: the attitude of the general environment towards innovation, the style of owners and managers, and firms' dimension. The nature of the rules of the game in a given economy influences all these aspects. For examples, institutional arrangements such as the enforcement of compulsory education, the support to develop technical schools, and the incentives to scientific research, are pivotal in forging an innovation-supportive environment. At the same time, entrepreneurial activity can turn towards innovation and risk-taking or rent-seeking depending on the incentives provided by formal and informal rules.[22] Finally, commercial codes, regulation of corporate governance, and bankruptcy laws can either limit firms' growth, or allow them to reach a dimension compatible with the process of innovation in advanced technologies.[23]

In the next section we will show how problems of "extractive" entrepreneurial behavior and tiny firms' size have always characterized the functioning of the Italian productive system, and how specific institutions influenced these problems. As far as the relationship between institutions and the attitude towards science and technology is concerned, ample evidence is provided by a dedicated paper in this issue, thus we will not inquiry into this perspective here.[24]

Institutional failure in Italy: some evidence

In the light of several studies, no doubt any longer exists that Italy has a productive system historically characterized by firms particularly small in comparative terms.[25] For example, the share of workers employed in manufacturing firms with less than 10 employees was 40 per cent in 1911 and still about 30 per cent in the early 1960s.[26] By that time, in advanced countries this share was remarkably smaller, for example 6.4 per cent in France, less than 3 per cent in Germany, 2.5 per cent in US, and even in Japan was about the half (16.4 per cent) than in Italy.[27] However, the degree of difference between Italy and the rest of the Western core economies was not constant. Interestingly the most significant reductions of this difference also coincided with the phases of most rapid economic growth, such as the Giolittian age (1900-1914) and the post-1945 "economic miracle".[28] This correlation is not just a coincidence; in fact, there is also ample evidence that in other phases the dwarfism of Italian firms' affected considerably their ability to innovate and to stay close to the technological frontier.[29] On the other hand, various authors noticed how during the "economic miracle" Italy innovative capacity has reached its historical peak, both in terms of patenting activity and as a number of success stories of breakthrough innovations.[30]

Firms' dwarfism and consequent inability to innovate have thus characterized the economic history of Italy since Unification. To what extent did specific institutions impact on these problems? To answer these questions we have to consider four elements unique to the Italian institutional environment: *i*) the functioning of bankruptcy law, *ii*) the use and misuse of specific forms of governance, *iii*) the ample role given to business consultants, and *iv*) the lack of attention towards the problem of tunneling.

Firstly, as far as bankruptcy is concerned, since the 1880s the Italian law gave firms no useful device to re-start. The recourse to solutions that allow firms to avoid liquidation and to continue their activity was indeed extremely complicated. The Italian law established, as a condition to approve a non-bankruptcy deal, the *ex ante* guarantee of being able to pay a very high share (40 per cent) of unsecured liabilities. Although conceived as a device to protect creditors, in fact this solution failed in its aim and only left businesses with no protection against the effects of the economic cycle, with the result that concerns were liquidated to an extent unknown in other countries.[31] This can be seen as one of the main causes of the difficulties of Italian firms to survive and to grow.[32]

The second area of negative impact of institutions on firms' size is the artificial protection of specific forms of governance, for instance artisan firms. After 1945, this was achieved mainly via lower tax rates, privileged interest rates and a softer bankruptcy law,[33] and was conducted on a scale incomparable to all other European countries. These policies resulted into an extremely large number of this type of business: for instance, in 1961, there were more than 700.000 firms registered as artisans with about one million employees.[34] It is worth noticing that in some traditional sectors, artisan firms were the majority of the total. This attitude, to an extent even justifiable in economic terms, had negative implications for the growth of businesses. Artisan firms, for instance, remained artificially small and based on archaic technologies, because in order to maintain their legal privileges they had to show that in the productive activity the input of labor prevailed over the one of capital. More in general, however, the lack of controls and enforcement also created perverse incentives for standard industrial concerns to formally register as artisan firms to enjoy the artificial protection reserved to this type of businesses.[35] This is a clear anomaly of the Italian productive system vis-à-vis other types of capitalism. In Anglo-Saxon countries, for example, artisans are a negligible component of the productive system, and the very concept does not even have a proper translation.[36] At the other side of the spectrum, artisans have an enormous relevance in the German economy, but they operate in a completely different way than in Italy. Rather than being small, backward in technology and concentrated in traditional industries as in Italy, thanks to dedicated institutions and regulations German *Handwerk* evolved into modern and often relatively big firms (up to 200 employees). They operate in traditional as well as advanced sectors, thanks to knowledge of "theory, management, accounting, and marketing"[37] and the recourse to skilled workers, trained in technical schools or even in dedicated R&D centers financed by the artisans guilds and associations.

The third institutional failure affecting firm size is the unique wide role played by business consultants in Italy.[38] For reasons linked to the extreme complexity of the fiscal legislations, every Italian firm had to hire a consultant (*commercialista*) who, tended to expand its influence in all other aspects of management.[39] The position of the consultant, however, critically depended on the firm's small dimension. On the one hand, because as soon as businesses increased in size they got inclined to internalize these functions. On the other hand, because consultancy business themselves tended to be small, hence unable to serve big clients. The small size of consultants firms was also due to the law which forbade their incorporation.[40] As a consequence, once in place as managers of small firms, consultants had no incentives to promote their growth. The same can be said about governance: consultants were hired directly by the owner(s), not by the firm, and had no advantage in promoting the entry of other investors as this would have weakened their position.[41]

Finally, the fourth way in which Italian institutions affected firms' growth (and size) is by facilitating the tunneling of resources from firms to their owners. This could be done, for example, by promoting fake investment in assets formally belonging to the firm but only used by the owner, or by moving into accounts in foreign banks undeclared profits.[42] Although the quantification of such phenomenon is impossible to get, evidence of its existence is provided in the secondary literature. Mainstream economists have showed how in Italy the legal protection of minority creditors is ineffective, paving the way to very large benefits deriving from private control of firms, including the possibility of tunneling.[43] At the same time, economic historians have argued that this is far from a recent phenomenon.[44] Tunneling is not at all separated from the problem of the wide role left to business consultants; given that their power depended on firms' remaining small, and their remuneration and volume of activity on the satisfaction of the customers (i.e. the owners of firms), consultants had a double incentive to channel resources from companies to their owners.

While small size made Italian firms unable to fully embrace the technological race, entrepreneurial attitude might have made Italian business unwilling to innovate. In fact, recent work by Toninelli and Vasta[45] revealed how in Italy the number of genuine Schumpeterian entrepreneurs has always been small, and that these few innovative entrepreneurs played a marginal role in the process of growth. Peculiar aspects of the Italian institutional environment went in the direction of supporting conservative, if not openly "predatory" attitudes from Italian business owners. Specifically, the weakness of the enforcement in two key areas of business regulation *de facto* created opportunity for high profits even in the absence of substantial investment in technology and innovation.

The first area is the already-mentioned problem of tunneling; the other one is tax evasion, a phenomenon as old as the history of the country and largely acknowledged by the literature.[46] An estimate provided by the well-known statistician Gini for 1909 suggested that a total level of fiscal evasion was about 32 per cent. By using the same methodology, the editors of the second edition of the Gini's book calculated a level to 50-70 per cent for the 1920s and 1930s.[47] After 1945 things did not improve; possibly the best impressionistic piece of evidence is the phenomenon, occurring at least since the late 1980s, of employers (particularly shopkeeper and artisans) declaring annual incomes lower than the salary of their employees.[48] This segment of the middle class cheated systematically the State's finances. On the one hand, through tax evasion and, on the other, by reinvesting part of these resources in Italian government bonds, they received high returns while increasing the size of the Italian public debt. Although more research is needed in this area, it is reasonable to argue that the possibility of evading taxation and the prompt availability of a safe and high-return investment, might have pushed firms' owners away from engagement with advanced technologies, new products, and so on.

In Italy issues of tunneling and tax evasion have always been linked to the wider institutional problem of balance-sheets regulation. Before the introduction of the new commercial code in 1942, *de facto* there was no regulation of the information to be included in companies' balance sheets and after 1942 things did not change substantially. In fact, manipulations of the books has always been the norm,[49] often with the excuse of too a high level of taxation; at the 1911 National Congress of Joint-stock Companies, for example, an anonymous, yet recorded, voice suggested that it would have been unreasonable to expect true balance sheets given the existing high level of taxation.[50]

The roots of institutional failure

From the analysis conducted in the previous section it appears that the institutional failure in key areas of the Italian economy is evident since Unification. If this were the case, the obvious question is why inefficient institutions have not been changed and replaced with sounder ones. In fact the idea of institutional inefficiency as the main problem of the Italian economy is not new and some of the authors who developed this view also provided reasons for the stickiness of inefficient rules. For example, one interpretation provided by a growing body of literature in mainstream economics argues that at least since the end of the Second World War the Italian economy showed remarkable weaknesses in the regulation of corporate governance, specifically in the protection of the rights of minority shareholders. This led to the underdevelopment of the financial market, fewer companies implementing a sound separation between ownership and control, and structural problems of tunneling.[51] In line with the "political economy" view suggested by Pagano and Volpin,[52] the lack of efficient regulation in the field of corporate governance can be seen as the result of the action of an oligopoly of few powerful industrialists allied with a lobby of long-serving politicians refusing to open-up the country to the virtue of competition. Defense of insiders, lack of proper competition, and collusive attitude of the State, also underpin the recent view that the post 1990s Italian decline has been mainly the effect of a long-term *à la Olson* institutional capture from conservative trade unions, with the consequent decline of the quality of the labor market.[53]

Our interpretation of the Italian institutional failure is not necessarily incompatible with some aspects of these views, but it differs on many crucial points. In particular, contrary to the views described above, we believe that institutional problems were (and are) not confined to specific aspects of the economy, but extended to the basic, day-by-day interactions among economic agents. Also, we argue that institutional failure did not necessarily serve only the interests of specific and easy-identifiable lobbies, rather the ones of a large minority, whose composition changed over time and in which advantages were not equally distributed among its members. Following North,[54] our view is that what he defines "political entrepreneurs" provide rules in line with their personal interests. Inefficient rules thus emerge (and survive) when vested interests are not consistent with the public good, but also if benevolent rule makers suffer from a form of cognitive deficit. This means that they fail to understand what institutions the economy really needs, or cannot foresee that the actual effects of the rules they provide might end-up being very different from the expected one.

What we claim is that in Italy ineffective rules of the game were the result of a mix of these two aspects. Specifically, up to World War Two problems were mainly, although far from exclusively, linked to issues of cognitive deficit, while since 1945 the defence of vested interests became the dominant force in the process of institutional failure.

Political entrepreneurs' cognitive deficit finds its origin in the features of the process of State formation. As recently argued by Cassese, this process was very fast, and ultimately failed 'to integrate people in the institutions',[55] meaning that it was unable to customize standard institutional settings to the specific needs of the Italian economy. The speed of the process also meant a very strong degree of centralization of power that made whatever decision taken by political entrepreneurs less subject to the check of democratic counterbalances, hence more prone to the problems described above. Political and administrative unification was accomplished through an extension of the boundaries of the Kingdom of Sardinia, led by politicians, such as Cavour, who believed that liberal institutions, designed for Piedmont, would automatically generate economic progress in the entire country. Unfortunately, this political class did not appropriately understand the situation of the country; for instance, Cavour in his life never visited a place south of Florence.[56] The result was that many rules they introduced were not suitable for the whole nation. One of the most revealing examples of this problem is the organization of primary education, which seems to be a typical case of institutional failure. In 1861 the Casati Law, originally approved in Piedmont in 1859, was extended to the entire Kingdom of Italy. The act made municipalities bear the burden of primary education; this type of organization − suitable for a relatively developed area such as Piedmont − was completely inadequate for the poor regions of Southern Italy. There were two reciprocally reinforcing mechanisms which played negatively in this sense. Firstly, because the Southern regions did not have sufficient financial resources to invest in education. Secondly because, as suggested by a recent contribution, lower investment in education could be also a product of the lack of willingness.[57] Following the Engerman and Sokoloff hypothesis,[58] we can explain exhaustively the institutional mechanisms driving investments in education in Italy. Local landowners, who usually ruled municipalities, taxed themselves much less in the South, than in the North, and as a consequence in the former areas there were less resources to invest in education. This led to a significant delay in the process of literacy of the South; still in 1911 the literacy rate of the southern regions was 40.3%, while in the Northern and Central regions had overcome the threshold of 80%. It was only with the development of centralised state-financed education in 1911 that the trend changed.[59] The Casati law described above is a clear example of this problem, but the impact of the "cognitive deficit" is visible in other areas too. For instance, while long debates took place to decide which commercial code would have best suited the economic needs of the nation, much less attention, if any, was turned to the fact that very poor enforcement of basic property rights in the South was creating a monopoly for the organized crime in supporting the fast developing sulphur industry in Sicily.[60] Italian policymakers also remained prisoners of an archaic view of the functioning of modern economies and misunderstood the needs of a developing country. For example, they struggled to recognize the key role of education, scientific research, and innovation in the process of economic growth. Still at the end of the XIX century the Italian Minister of Education maintained that universities should have provided basic knowledge and nothing more,[61] since "vexatio dat intellectum" (vexation sharpens the intellect). Similarly, the very hostile attitude towards debts and bankruptcy was inspired by moral rather than technical views of financial intermediation. This led to the provision of a bankruptcy law whose strong bias towards the protection of creditors only made it hard to apply and enforce.[62]

Similar problems occurred also in public administration. Contrary to countries like France and United Kingdom with a firmly established tradition in the training of civil servants – such as the *grands corps* or the *Oxbridge* system –, the Italian public administration had to form and recruit their own bureaucracy in the absence of an external and dedicated training system. As a consequence, since the beginning of the XIX century, the public administration progressively became the natural destination for law graduates, something that fostered the idealistic traits of the Italian cultural tradition. Thus, the attention towards the formal coherence of the legislative order became prominent *vis a vis* the issue of technical and economic efficiency, and this led to a progressive distance from the needs of the world of production, natural monopoly of graduates in technical disciplines.[63]

Up to 1945 cognitive deficit also went hand in hand with the defense of specific interests resulting, for example, in little attention to rules about firms' governance and banking regulation.[64] More in general, Felice showed that to a large extent the lack of attention towards the conditions of the *Mezzogiorno* were also motivated by the protection of the advantages for given Southern constituencies, even via turning a blind eye on the expansion of the power of organized crime. The power of these constituencies, in turn, helped preserving the stability of the entire political system.[65]

From this perspective, however, the World War Two represents a clear watershed, as the already existing process of distortion of the rules of the game for the direct gain of political entrepreneurs picked up momentum. This was due, among other reasons, to the fact that at least till the 1980s the Italian political system was *de facto* dominated by the two major parties (the *Democrazia Cristiana* and the *Partito Comunista*) that could pursue the interests of their constituencies without fearing any real political competition. A revealing effect of this attitude was the defense, for electoral purposes, of small dimension in all economic sectors: manufacturing,[66] banking,[67] distribution,[68] and probably agriculture too. To an extent, this responded to the logic aim of protecting the country's competitive advantages but, as Conti and Ferri argued, some of the reasons behind this policy were "less noble" than others.[69] In particular, this approach was part of a political and institutional set-up promoted by the *Democrazia Cristiana* – partly shared also by the *Partito Comunista* – and supported by the central bank with the aim of creating a block of consensus to counterbalance the growing influence of big businesses.[70] As we saw in the previous section, this contributed to the problem of dwarfism of Italian firms, but also led to constant lack of sanctions for the abuse or non-compliance with some basic rules, in particular in the areas such as balance sheet regulation, tunneling of firms' resources, and fiscal evasion. In fact, historians such as Crainz and Ginsborg[71] have argued that the protection of small dimension and tolerance to tax evasion were two sides of the same coin of supporting, for political convenience, the segment of the middle class operating on a small concerns in manufacturing, distribution and services.

The rules of the game and the rules of the "beautiful game"

From the analysis conducted so far it appears that the Italian economy has been the victim of long-term institutional failure, and one can wonder why Italians did not try to correct this anomaly. Our interpretation is that such institutional failure was probably often able to favor a large enough minority of people, whose composition changed over time and space, and its members got different levels of benefits. We think that one of the best examples comes from what Italians love most: football.

Firstly, it is worth noting that Italian football is not only a *divertissement* since it represents an important industrial sector, as the production value of professional football clubs equals 0.15 per cent of Italian GDP in 2011.[72] Moreover, it has been estimated that about 70 per cent of Italian people are interested in football, and for all television networks it is one of the most important businesses, considering the amount of advertising revenues it produces.[73] However, much to the surprise to Anglo-Saxons observers for which football is mainly a game, in Italy it has extremely controversial social and cultural ramifications, and its meaning and importance goes well beyond its economic value.[74] For example, it has been argued that the advent of Berlusconi in the mid-1990s as a politician can be understood only considering his successful career as owner and president of *AC Milan*, one of the most famous Italian football clubs.[75] In fact, references to football constituted the backbone of Berlusconi's language and messages, from the continuous use of football metaphors in his speeches, to the very name of his party (*Forza Italia*), cloned from the traditional motto of the supporters of the Italian national team.[76] On the other hand, one must not forget that one of the biggest Italian private companies (Fiat) also controls the most powerful Italian football club, *Juventus*.

The "beautiful game", one can wonder, is thus in Italy an important economic, political, social, and cultural phenomenon, constantly under the scrutiny of the press and the public, to be managed with distorted or just inefficient rules. In fact, the story of football scandals in Italy is rich and long.[77] The most devastating one for the credibility of the industry emerged in 2006, when it became clear that a criminal organization rotating around the general manager of Juventus football club, Luciano Moggi, had the power to fix matches by bribing and black-mailing a network of referees, journalists and directors of other clubs.[78] Disturbingly, it also appeared that Moggi's relationship network was so wide as to include the Italian Minister of the Home Affairs.[79] Econometric analysis ran by two economists had showed that, in fact, these phenomena (in particular the corruption of referees to the advantage of Juventus) were widespread and structural well before 2006.[80]

For the sake of our argument it is revealing that such scandals were not the result of idiosyncratic criminal behavior of few individuals, but the direct consequences of ill-conceived rules of the game. Two examples are particularly revealing. The first one concern the way referees were selected for given matches; this happened (and still happens) on the basis of a discretional assessment of their abilities and with a very biased system of allocation which gives the people in charge of the procedure an enormous power. As noticed, the result was "that Juve [ntus] and Milan can often rig the system to assign themselves the most mediocre, provincially minded referees, who are (subconsciously) more deferential towards their prestige clubs".[81] The second peculiarity is that the main Italian clubs also have a direct interest in the media industry, which represents the main source of income.[82] However, media are also used to put pressure on referees, thereby affecting their reputation and their careers. Again, "referees who have issued critical penalties against Juve have found themselves working games in the lowly Serie B".[83] In this sense, it can be argued that referees' deference to powerful clubs was not just a matter of subconscious pressure, as often argued, but also of direct and explicit interest.

In the light of the argument proposed by this paper, the analysis of Italian football teaches us two significant lessons that can be extended to the rest of the economy. Firstly, institutional shortage in terms of poor basic rules appears in all aspects of the Italian economic life, including the "beautiful game". Secondly, when the general interest is affected by the ineffectiveness of rules, no reaction takes place as long as a big enough minority benefits from it. This is the case of fans of AC Milan and Juventus, who represented around forty per cent of Italian football supports and thus could enjoy easy and numerous successes. This contributes to explain why many more voices have been raised to complain about the alleged unfairness of the trials which followed the discovery of match fixing, than to ask for more transparent and efficient rules.

Conclusions

The 150th anniversary of Italian Unification offers the opportunity to analyze the path of economic development of the country in the long-run and to study how "the rules of the game" can affect its performance. The results of such a study seem to leave little room to optimism: despite the brilliant performance during given phases, Italy never really converged either to the technological frontier or to the core of European industrialized countries. Although it is possible to indicate a variety of causes behind this pattern, it is evident that firm structure and entrepreneurial attitudes plaid an important role in frustrating the ability and willingness to innovate and to fully exploit various opportunities given by the waves of technological change. In this scenario, key institutional settings provided unfitted incentives.

Contrary to what argued by most of the recent literature, such institutional failure, or at least some key components of it, are much older than 1945 and hardly limited to mere rigidities in the functioning of markets. Similarly, the persistency of badly-conceived or poorly-enforced rules cannot entirely put down to the strength of some vexed interest; especially before 1945 the inability to fully understand the needs of the economy (what we define "cognitive deficit") plaid a role too.

As a general conclusion, it is important to add that in this paper we only analyzed what North defined as formal institutions (i.e. rules, regulations, and the likes) and the weakness of their enforcement. However, one can legitimately argue that Italy's problems are to be found at the deeper level of those informal institutions constituted by social norms and cultural habits that do not condemn the pursuit of personal interest at the expense of the public one, and look at lack of compliancy with rules and regulations with a neutral, if not mildly-benevolent attitude. In the light of the state of the research, whether this is true, and up to the weaknesses of a recently-established and top-down central power, the pervasive influence of the church, the peculiar strength of the family, or a combinations of all these factors, remains largely a matter of opinion. What is clear, however, is that the informal institutions evolve in the very long-run and change very slowly. Although exploring this point goes well beyond the limitations of this paper, it is certainly a worthwhile direction of enquiry. If Cipolla were right in arguing that Italy had distorted and inefficient informal institutions already at the beginning of the seventeenth century, then one could conclude that the disastrous economic performance of the last twenty years is the sign that Italy has was only temporarily on the path from the periphery to the core, and moved back to its career as an underdeveloped country.

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[1] We wish to thank Franco Amatori, Francesca Carnevali, Giuseppe Conti, Abe De Jong, Diego Mencarelli and Vera Zamagni for comments and criticisms. All remaining errors are ours alone.

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[2]Authors such as de Cecco (*L'economia di Lucignolo*) and Gallino (*La scomparsa*) have noted this trend at least since 2000.

[3] All data provided are our own elaboration on Eurostat (www.eurostat.eu), last access 25th June 2012.

[4] Di Maio and Tamagni, "The evolution of world export." For a full discussion of the topic, see Vasta, "Italian export capacity."

[5] Nuvolari and Vasta, "The ghost in the attic?"

[6] The longevity of the political success of Berlusconi, the long-lasting resilience of the *Lega Nord* and the recent large impact of a new political party *Movimento Cinque Stelle* led by the former comedian Beppe Grillo, paint a picture of general disaffection for political engagement and lack of trust in the political system. On the latter case, see Bordignon and Ceccarini, "Five Stars and a Cricket."

[7] Zamagni, *The economic history.*

[8] Cipolla, *Before the Industrial Revolution.*

[9] Malanima, "The long decline."

[10] Felice and Vecchi, "Italy's Modern Economic," Figure 2.

[11] The most striking example of this attitude is certainly Federico, "Italy, 1860-1940: a little-known success story."

[12] See Ciocca, *Ricchi per sempre?* and Boltho, "Italy, Germany, Japan."

[13] Aganin and Volpin ("The History of Corporate Ownership"), Barca ("Compromesso senza riforme"), Boltho ("Italy, Germany, Japan"), and Ciocca, (*Ricchi per sempre?*) provide different variations on the same theme.

[14] North (*Institutions, institutional change*) distinguishes between "formal institutions" (the explicit rules) and "informal institutions" (social norms, culture, habits) and "organizations" (the structures, such as the parliament or the church that provides the institutions). In the paper we focus on the former, although in practice the differences between these concepts are less clear-cut that in theory.

[15] John Zysman, "How Institutions." In this study Zysman anticipates some findings now largely accepted as a result of the work by Acemoglu and his associates.

[16] Ibid.

[17] Sylos Labini, *Berlusconi e gli anticorpi.*

[18] In a recent book, Felice, *Perché il Sud*, argues that institutions are the most powerful variable to explain such problems. See also, Felice and Vasta, "Passive Modernization".

[19] Schneider and Enste, "Shadow Economy."

[20] See, amongst many others, Olson, *The rise and decline*, North, *Institutions, institutional change*, Acemoglu, Johnson and Robinson, "Institutions as the Fundamental Cause" and *Why Nations fail*.

[21] Abramovitz, "Catching Up, Forging Ahead."

[22] Baumol, "Entrepreneurship: productive, unproductive."

[23] Guinnane *et al.*, "Putting the Corporation."

[24] Nuvolari and Vasta, "The ghost in the attic?"

[25] Van Ark and Monnikhof, "Size distribution of output"; Colli and Rinaldi, "Institutions, politics".

[26] Federico, "Industrial structure," tab 2.8.

[27] Giannetti and Vasta, *Storia dell'impresa*, tab, 2.11a, mainly based on Van Ark and Monnikhof, "Size distribution of output," tabb. A.3, A.7, A11 and A19. German's data is our estimate based on the fact that the workers share in manufacturing industries for the size class 1-19 is 3.9 per cent on total.

[28] Colli and Vasta, "Introduction."

[29] Amatori, Bugamelli and Colli, "Technology, Firm Size."

[30] Gomellini and Pianta, "Commercio con l'estero e tecnologia."

[31] Di Martino and Hautcoeur, "The Functioning."

[32] Ciocca, "Law and the economy" and *Ricchi per sempre,* and Di Martino and Vasta, "Companies' insolvency."

[33] Longoni and Rinaldi, "Industrial policy."

[34] Ibid, tab. 9.1.

[35] Baccini, "Artigiancassa."

[36] Best, *The New Competition*.

[37] McKitrick, "Government's economic role", p. 473

[38] De Cecco, "Piccole imprese, banche, commercialisti."

[39] Fiorentini, "Sviluppo capitalistico e professioni economiche", pp. 284-5.

[40] Law n. 1815, 23/11, 1939.

[41] Di Martino and Vasta, *Discovering the dark heart of Italian capitalism*.

[42] As in the case of the Smalteria Metallurgica Veneta analised by Favero, "Foreign family business and capital flight".

[43] Dyck and Zingales, "Private benefits of control."

[44] De Cecco, "Italy's dysfunctional political economy."

[45] Toninelli and Vasta, "Opening the black box."

[46] Manestra, "Per una storia."

[47] Gini, *L'ammontare e la composizione*; The second edition was published in 1962.

[48] For some references on this topic, see Ginsborg, *Italy and its Discontents.*

[49] Toninelli, "Ragioneria, contabilità e storia d'impresa." In a previous work, the author showed how Edison tunneled its profits from the shareholders to firm' investment. Although these flows did not enrich the owner, this situation shows the existence of poor rules unable to ensure the right of the shareholders. See Toninelli, *La Edison*.

[50] See, Teti, "Imprese, imprenditori," p. 1243, who reports a note on this Congress published in a leading Italian commercial journal.

[51] Dyck and Zingales, "Private benefits of control," Zingales, "The value of the voting right" and *Capitalism for the People*.

[52] Pagano and Volpin, "The political economy."

[53] Boltho, "Italy, Germany, Japan."

[54] North, *Institutions, institutional change*.

[55] Cassese, *L'Italia*.

[56] Ibid, p. 35.

[57] A'Hearn, Auria and Vecchi, "Istruzione."

[58] Engerman and Sokoloff, "Colonialism, Inequality."

[59] Cappelli, *Escaping from the Human Capital Trap*.

[60] Bandiera, "Land reform."

[61] Quoted in Maiocchi, "Il ruolo delle scienze."

[62] Di Martino and Hautcoeur, "The Functioning."

[63] For an overview of the history of Italian public administration, see the classic book by Melis, *Storia dell'amministrazione.*

[64] The banking scandal that took place in the early 1890s, for example, revealed the direct involvement of the majority of members of parliament, including the Prime Ministers Crispi and Giolitti.

[65] Felice, *Perché il Sud.*

[66] Colli and Rinaldi, "Institutions, politics."

[67] Carnevali, *Europe's Advantage,* Spadavecchia, "Financing Industrial Districts."

[68] Scarpellini, *Comprare all'americana.*

[69] Conti e Ferri, "Banche locali."

[70] Ibid. This view had undermined the stereotype according to which Italian "Mancunian-like" enterprises had flourished in the absence of state intervention and based on self-financing. See, Becattini, *Distretti industriali,* Cafagna, "Contro tre pregiudizi."

[71] Crainz, *Autobiografia di una repubblica* and Ginsborg, *Italy and its discontents.*

[72] The economic and social relevance of football is generating a growing academic literature (see the dedicated journal *Soccer and Society*), including in business history, as showed, for example, by the recent paper by Rossi and Tessari, *From* Calciomercato *to* Calciopoli.

[73] Boeri, *Parlerò solo di calcio*.

[74] See Jones (*The dark heart*), on the straightforwardness of football in England and on the author's inability to understand at first the "politics" of football in Italy. See also Foot, *Calcio*.

[75] Diamanti, "Foot Politics."

[76] Ginsborg, *Italy and its discontents*.

[77] Evidence of massive involvement of players (including members of the national team), managers and club directors in illegal betting and match fixing seems to be an endless plague. Both in the late 1970s and again in 2011, this led to the suspension (if not arrest) of players and relegations of clubs.

[78] Beha and Di Caro, *Il calcio alla sbarra*.

[79] L'Espresso, *Il libro nero del calcio*.

[80] Boeri and Severgnini, "The Italian Job.".

[81] Foer, *How Soccer*, p. 170.

[82] Boeri, *Parlerò solo di calcio*.

[83] Foer, *How Soccer*, p. 170.